



Tennessee Housing Development Agency

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Bill Lee
Governor

Ralph M. Perrey
Executive Director

MEMORANDUM

TO: THDA Board of Directors

FROM: Don Watt, Chief Programs Officer
Josie Kotsioris, Director of Multifamily Programs
Dhathri Chunduru, Director of Research & Planning

SUBJECT: Preliminary Proposed Changes for the Draft Low-Income Housing Credit 2022 Qualified Allocation Plan

DATE: May 19, 2021

Recommendation

Staff requests direction from the Tax Credit Committee regarding preliminary proposed changes for the Draft Low-Income Housing Credit 2022 Qualified Allocation Plan (the “Draft 2022 QAP”).

Key Points

At present, staff is bringing forward two preliminary proposed changes:

1. Update the Location Score component of the new construction scoring system; and
2. Update the provisions regarding new construction in a Qualified Census Tract (“QCT”).

Background

1. Methodology for Proposed Update to 2022 Project Location Scoring

a. Overview

- i. The 2021 scoring system for determining county needs scores utilized seven variables calculated at the county level. For 2022, staff proposes a tract-level scoring system with four variables, which are as follow:
 1. **Variable 1:** Projected county population growth 2021-2031 as a percent of the state’s population growth (Score Weight: 25%)
 2. **Variable 2:** Tract share of the state’s income-qualified renter households with housing problems (Score Weight: 30%)
 3. **Variable 3:** Tract prior allocation per capita income qualified renter household (Score Weight: 30%)
 4. **Variable 4:** Tract economic security composite (includes unemployment rate, percent of families living in poverty, labor force engagement, and median household income) (Score Weight: 15%)

- b. This proposed methodology introduces key changes meant to address existing issues with prior calculations of the county needs score. First, in years past, large urban counties have traditionally been noncompetitive in the years after receiving a tax credit allocation. Shifting to a tract-level geography would be a stronger representation of “location” for a development and ensure that larger counties would be competitive with smaller counties, as allocations would be determined by tract rather than by county as a whole. Second, shifting from seven to four variables increases the simplicity and transparency of THDA’s scoring methodology, while simultaneously reducing measurement error associated with multiple sources of data. Finally, the inclusion of the new economic security composite, weighted at only 15% of the overall score, aims to capture employment and poverty rates by tract.
- c. Furthermore, please find attached a set of pdf slides that offers a broader overview of the proposed scoring methodology.

2. New Construction in a Qualified Census Tract (QCT)

Staff has been asked to reconsider its former QAP policy which allowed “limited” new construction located in a QCT; and whether THDA should allow when doing so contributes to a concerted Community Revitalization Plan. As background, a QCT is a census tract where more than 50% of the households earn no more than 60% of the area median income for the average household size. Because minority households have lower overall household incomes, QCTs are also more likely to have higher concentrations of minority households than other census tracts in a county.

- a. Staff proposes to add language to the Draft 2022 QAP that permits new construction in a QCT.
- b. Staff expects the proposed new construction development must be part of the most recent concerted Community Revitalization Plan approved by the appropriate local government or local authority within the last 10 years of application submission; and such Plan must specifically address a need for affordable rental housing for the targeted population in the area location.
- c. Staff expects the proposals must be of an appropriate target size for the market as not to re-concentrate low income and very low income populations. Only one new construction LIHTC development in a QCT may be approved in any one county per year.
- d. Multifamily Programs staff and Research and Planning staff will collaborate to refine and finalize this proposal in the process of developing the Draft 2022 QAP.



Tennessee Housing
Development Agency

Proposed Project Location Scoring & Variants for 2022 QAP

RESEARCH & PLANNING

MAY 25, 2021

Agenda

1. Proposed scoring method for 2022
2. Tract-level estimates
 - a) Key issues that proposed method addresses
 - b) Effects of Variable 4 (Economic Security Composite) on Tract-Level Estimates
3. Methodology

Proposed Changes in Scoring

The 2021 scoring system

1. (13.6%) Percent of the State's LIHTC Eligible Renter Households with Housing Problems
2. (13.6%) Population Growth Rate 2021-2031
3. (13.6%) Population Growth 2021-2031 as a Percent of the State's Population Growth
4. (16%) Prior Allocation Per Capita LIHTC Eligible Renter Household
5. (16%) Prior Allocation Dollar Value
6. (13.6%) Pipeline (Number of tax credit units in each county that have received a new construction allocation in the last 5 years as a percent of the total number of existing LIHTC units in each county)
7. (13.6%) 3-Year Average Vacancy Rate

The 2022 scoring system

1. (25%) County Population Growth 2021-2031 as a Percent of the State's Population Growth
2. (30%) Tract Share of the State's Income-Qualified Renter Households with Housing Problems
3. (30%) Tract Prior Allocation Per Capita Income Qualified Renter Household
4. (15%) Tract Economic Security Composite
 1. Unemployment rate
 2. Percent of families living in poverty
 3. Rate of working age labor market engagement
 4. Median household income

Geographic Pools

Pool 1	Pool 2	Pool 3		Pool 4	
Davidson	Blount	Anderson	Lawrence	Benton	Johnson
Rutherford	Bradley	Bedford	Lincoln	Bledsoe	Lake
Shelby	Hamblen	Cannon	Loudon	Campbell	Lauderdale
Sumner	Hamilton	Cheatham	Macon	Carroll	Lewis
Williamson	Jefferson	Chester	Marion	Carter	McNairy
Wilson	Knox	Coffee	Marshall	Claiborne	Meigs
	Madison	Crockett	McMinn	Clay	Monroe
	Maury	Cumberland	Moore	Cocke	Morgan
	Montgomery	Decatur	Overton	Fentress	Obion
	Sevier	DeKalb	Pickett	Grainger	Perry
	Sullivan	Dickson	Polk	Grundy	Rhea
	Washington	Dyer	Putnam	Hancock	Scott
		Fayette	Roane	Hardeman	Unicoi
		Franklin	Robertson	Hardin	Union
		Gibson	Sequatchie	Hawkins	Van Buren
		Giles	Smith	Haywood	Warren
		Greene	Stewart	Henderson	Wayne
		Henry	Tipton	Houston	White
		Hickman	Trousdale	Jackson	
		Humphreys	Weakley		

Pool 1 (Urban 1)

- 6 counties from the Memphis and Nashville metropolitan areas with high median rents.

Pool 2 (Urban 2)

- 12 counties, ten of which are metropolitan counties, each with median rent greater than the metropolitan area of which it is a part. Maury and Sevier are added because of population size.

Pool 3 (Balance of State)

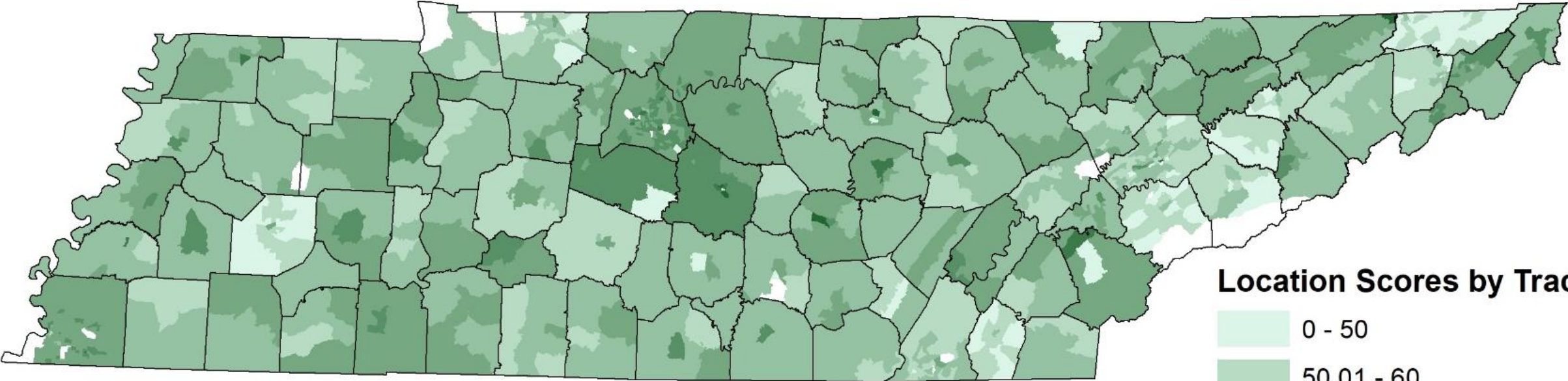
- 40 counties, most of which are rural counties with comparatively strong employment rates and per capita incomes. Some are metropolitan counties which have median rents that are less than the metropolitan area of which they are a part.
- Change from last year (Moved Overton Co., Weakley Co., and Decatur Co. from Pool 4, and Cheatham Co. from Pool 1)

Pool 4 (High Priority)

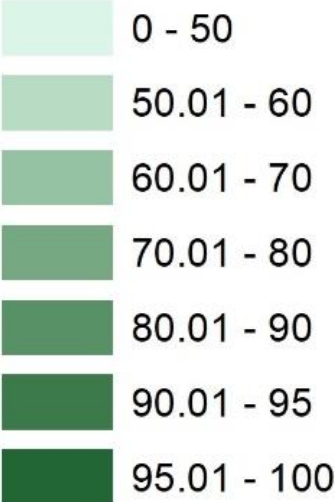
- 37 counties, which were identified by the Appalachian Regional Commission as among the 25% most economically troubled in the United States by unemployment rate, per capita income, and poverty rate. Of these, 11 are "distressed" and 27 are "at-risk."
- Change from last year (Moved White Co. from Pool 3)

Tract-level estimates

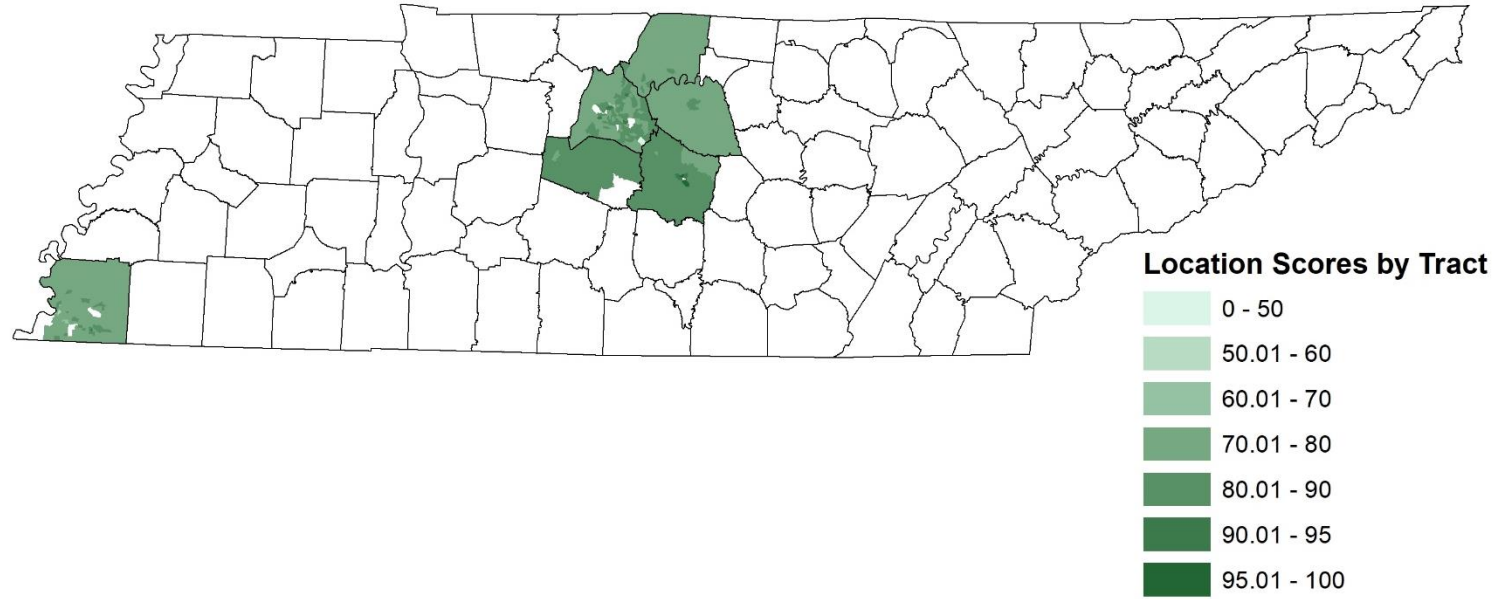
Location Scoring by Tract



Location Scores by Tract

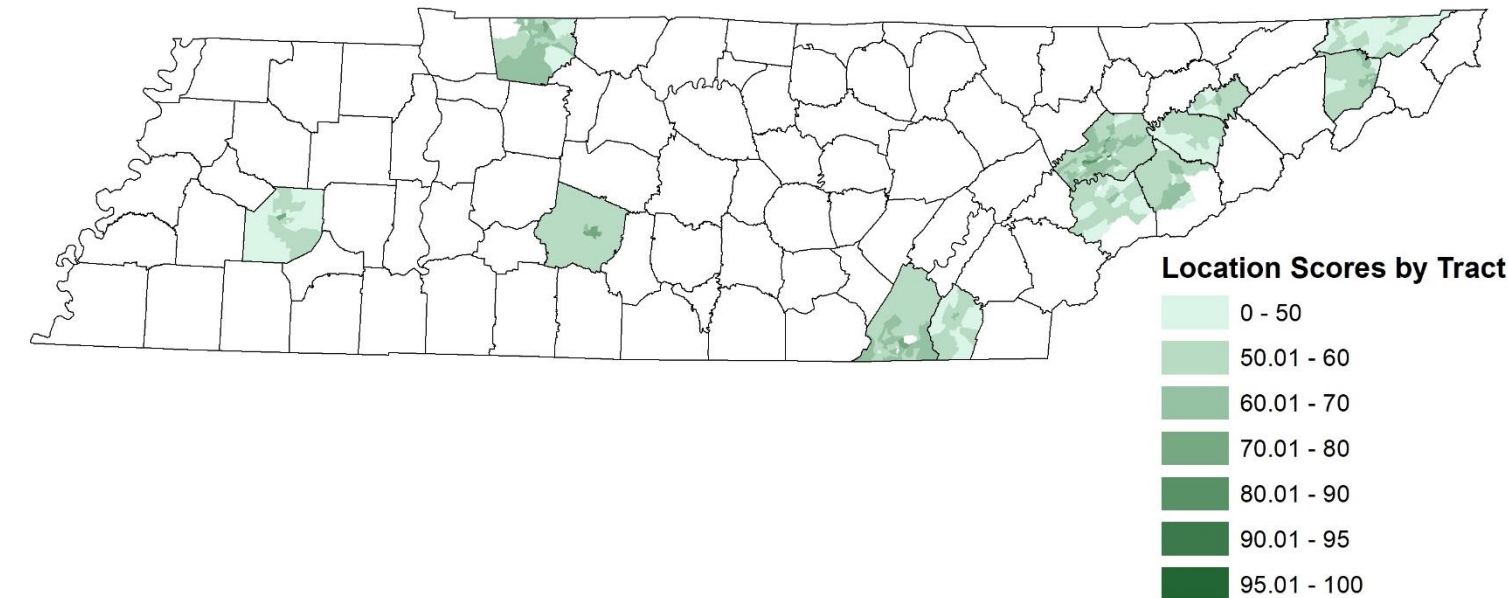


Location Scores - Pool 1 Only



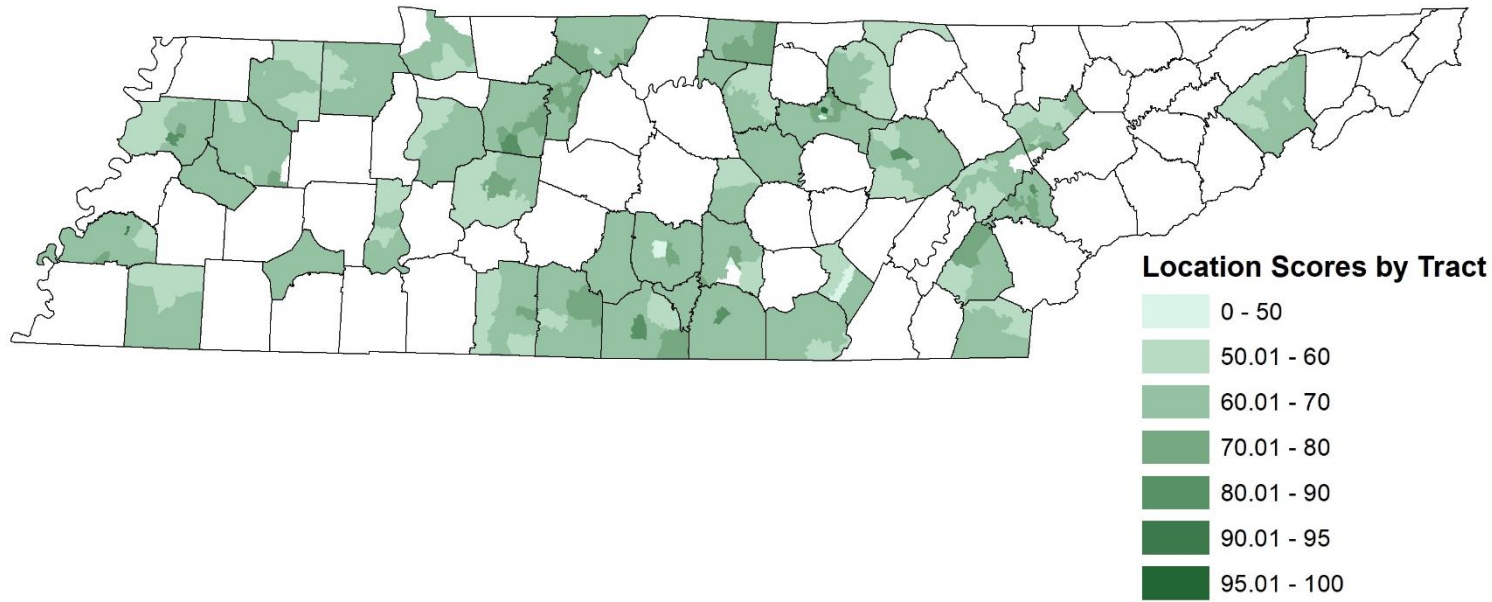
Pool 1 Top Scoring Tracts	Score
Census Tract 421, Rutherford	100.0
Census Tract 414.02, Rutherford	95.4
Census Tract 416, Rutherford	94.6
Census Tract 137, Davidson	93.9
Census Tract 107.01, Davidson	93.2
Census Tract 417, Rutherford	93.1
Census Tract 414.03, Rutherford	92.7
Census Tract 217.26, Shelby	90.6
Census Tract 181.01, Davidson	90.3
Census Tract 158.02, Davidson	90.2

Location Scores - Pool 2 Only



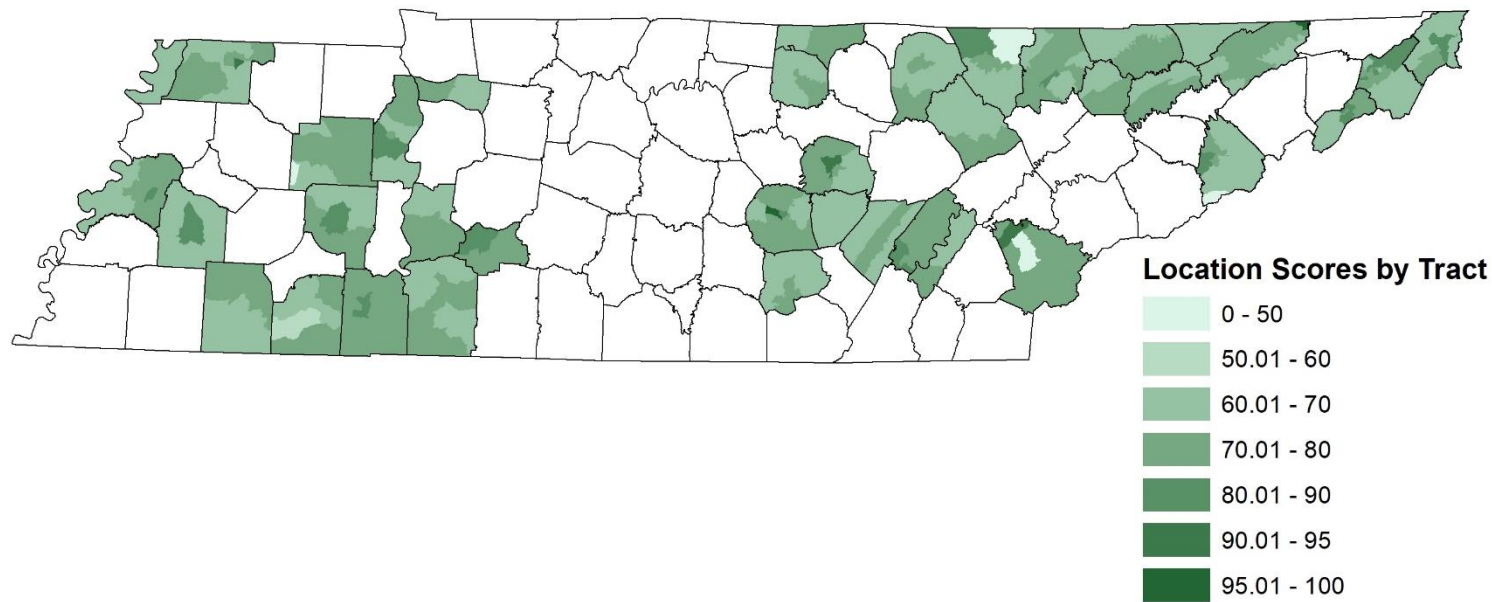
Pool 2 Top Scoring Tracts	Score
Census Tract 69, Knox	100.0
Census Tract 46.09, Knox	84.5
Census Tract 45, Knox	81.4
Census Tract 38.01, Knox	79.5
Census Tract 28, Knox	78.5
Census Tract 1020.05, Montgomery	73.6
Census Tract 50, Knox	73.3
Census Tract 2, Madison	73.1
Census Tract 40, Knox	73.1
Census Tract 114.43, Hamilton	73.0

Location Scores - Pool 3 Only



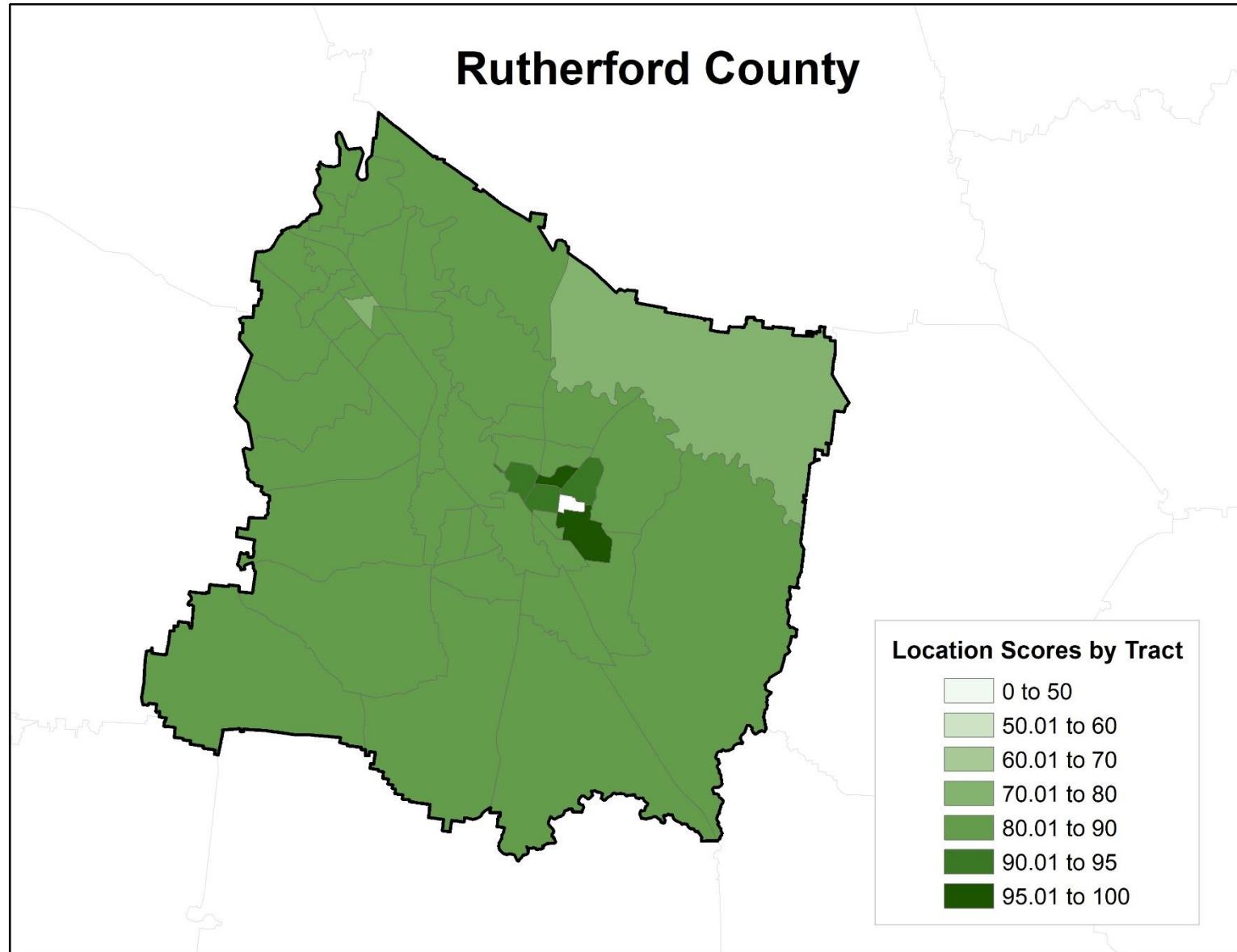
Pool 3 Top Scoring Tracts	Score
Census Tract 3.02, Putnam	100.0
Census Tract 407, Tipton	82.9
Census Tract 9704, Cumberland	82.9
Census Tract 606.02, Dickson	78.4
Census Tract 602.02, Loudon	78.3
Census Tract 806.06, Robertson	77.2
Census Tract 807, Robertson	76.8
Census Tract 9, Putnam	74.1
Census Tract 605.01, Dickson	73.4
Census Tract 2, Putnam	72.9

Location Scores - Pool 4 Only



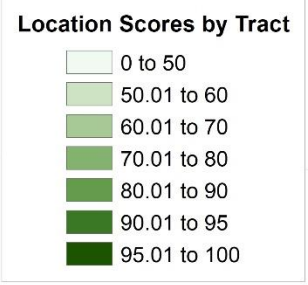
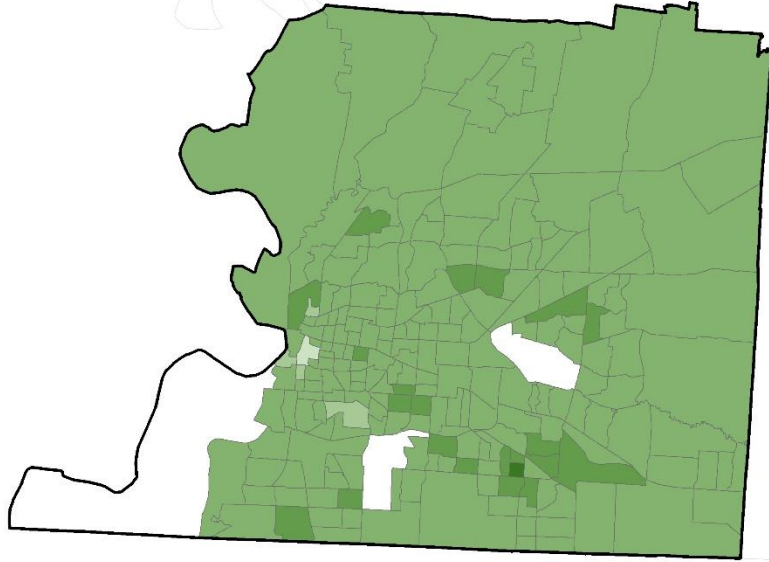
Pool 4 Top Scoring Tracts	Score
Census Tract 9304, Warren	100.0
Census Tract 9251, Monroe	98.2
Census Tract 9353, White	96.6
Census Tract 506.01, Hawkins	93.4
Census Tract 9753, Rhea	91.0
Census Tract 9753, Henderson	89.4
Census Tract 505.04, Lauderdale	86.8
Census Tract 9751, Scott	86.3
Census Tract 9253, Monroe	85.3
Census Tract 9754, Henderson	87.8

Variation in Large Pool 1 Counties

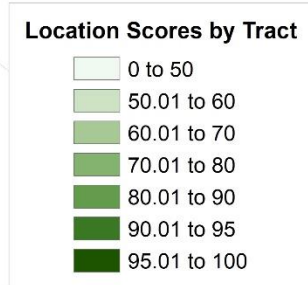
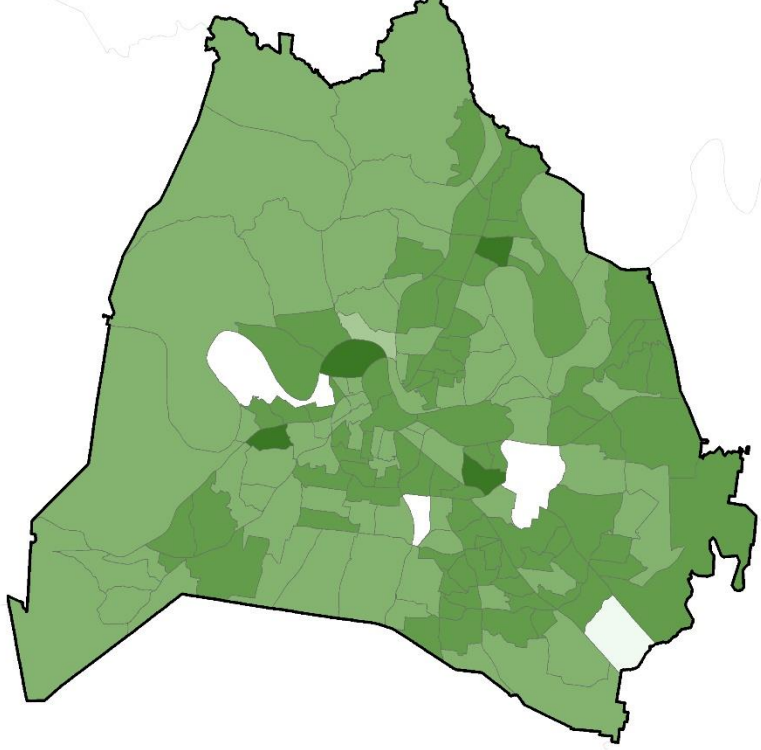


Variation in Large Pool 1 Counties

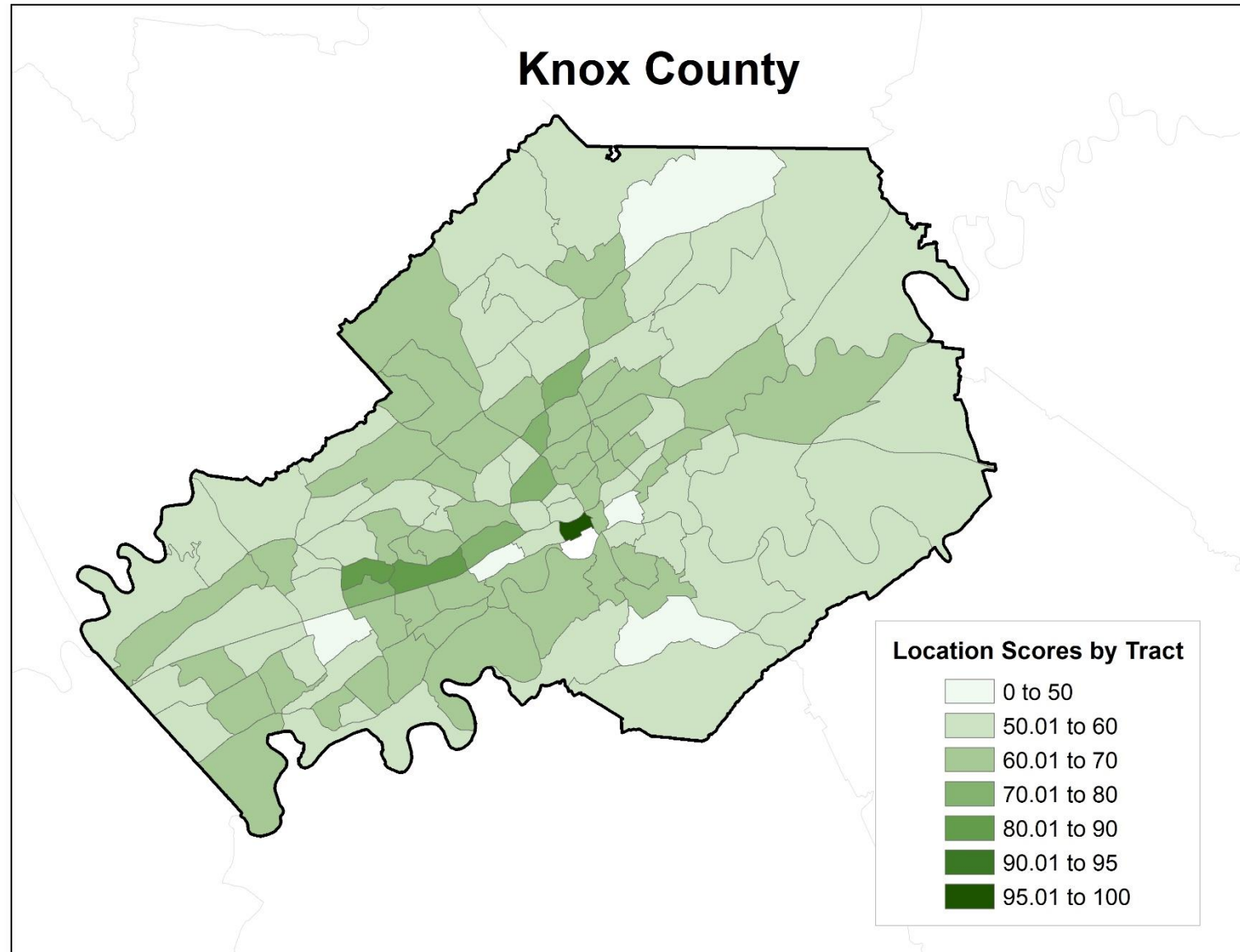
Shelby County



Davidson County

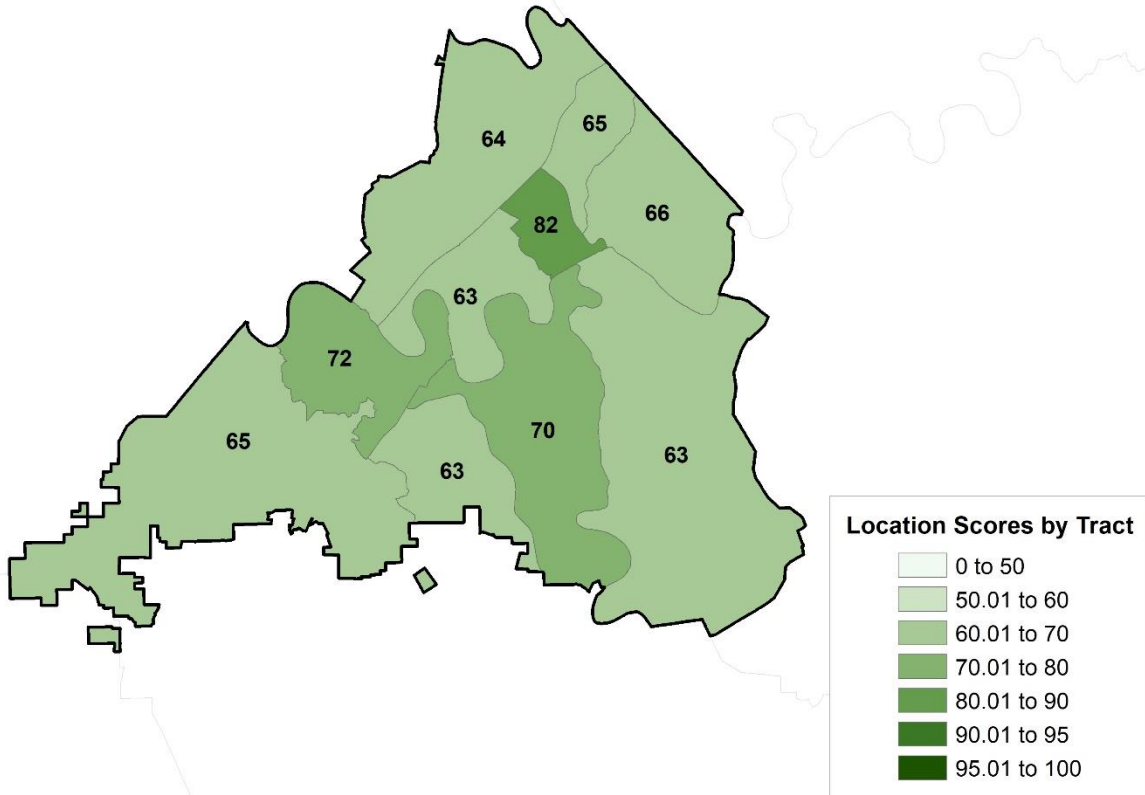


Variation in a Large Pool 2 County

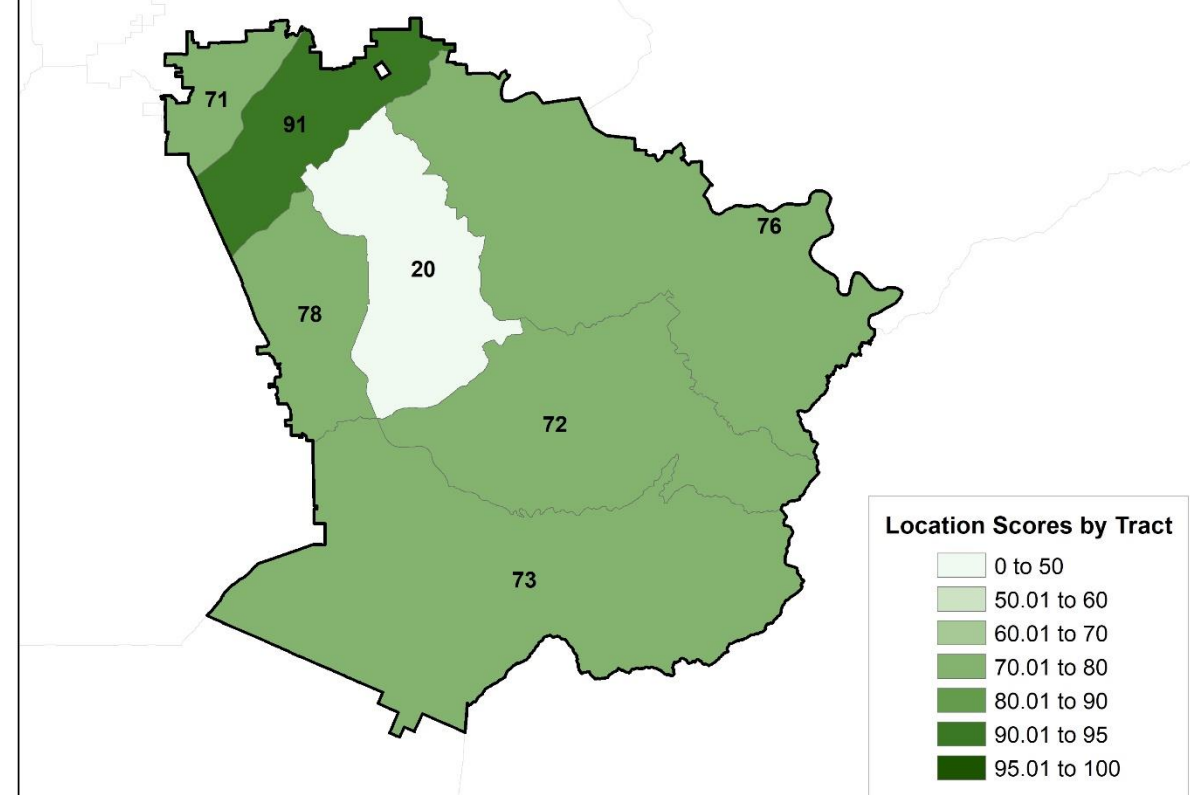


Variation in Pool 3 & 4 Counties

Loudon County



Monroe County



Effects of Variable 4

Model 1: Effects of Variable 4 on Pool 1 & 4 Tract Ranking

Pool 1					
Tract	Rank	Rank (w/o Var 4)	Composite	Composite (w/o Var 4)	Diff.
Census Tract 421, Rutherford	1	1	100.0	100.0	0.0
Census Tract 414.02, Rutherford	2	2	95.4	95.0	0.4
Census Tract 416, Rutherford	3	3	94.6	94.6	0.0
Census Tract 137, Davidson	4	4	93.9	94.2	-0.4
Census Tract 107.01, Davidson	5	6	93.2	92.5	0.7
Census Tract 417, Rutherford	6	7	93.1	92.3	0.8
Census Tract 414.03, Rutherford	7	5	92.7	92.5	0.2
Census Tract 217.26, Shelby	8	8	90.6	91.4	-0.8
Census Tract 181.01, Davidson	9	9	90.3	90.7	-0.4
Census Tract 158.02, Davidson	10	11	90.2	90.0	0.3

Pool 4					
Tract	Rank	Rank (w/o Var 4)	Composite	Composite (w/o Var 4)	Diff.
Census Tract 9304, Warren	1	1	100.0	100.0	0.0
Census Tract 9251, Monroe	2	2	98.2	99.5	-1.2
Census Tract 9353, White	3	3	96.6	95.7	0.9
Census Tract 506.01, Hawkins	4	4	93.4	93.2	0.2
Census Tract 9753, Rhea	5	5	91.0	92.0	-1.0
Census Tract 9753, Henderson	6	6	89.4	89.5	-0.1
Census Tract 505.04, Lauderdale	7	7	86.8	89.2	-2.3
Census Tract 9751, Scott	8	9	86.3	87.7	-1.4
Census Tract 9253, Monroe	9	14	85.3	85.5	-0.2
Census Tract 9754, Henderson	10	8	84.3	87.8	-3.4

Model 1: Effects of Variable 4 on Pool 2 & 3 Tract Ranking

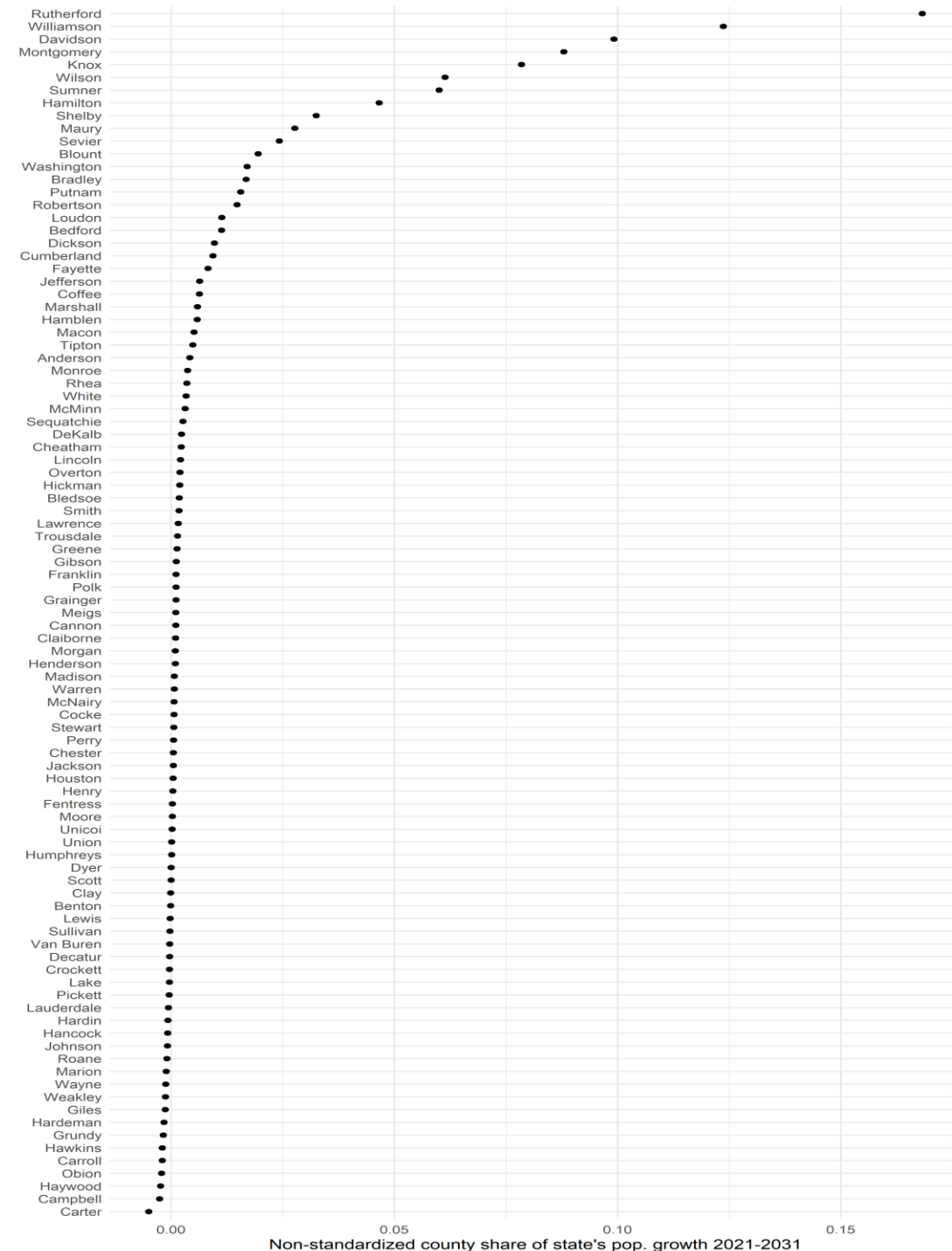
Pool 2					
Tract	Rank	Rank (w/o Var 4)	Composite	Composite (w/o Var 4)	Diff.
Census Tract 69, Knox County, Tennessee	1	1	100.0	100.0	0.0
Census Tract 46.09, Knox County, Tennessee	2	2	84.5	82.0	2.6
Census Tract 45, Knox County, Tennessee	3	4	81.4	78.7	2.7
Census Tract 38.01, Knox County, Tennessee	4	5	79.5	77.3	2.2
Census Tract 28, Knox County, Tennessee	5	3	78.5	80.2	-1.7
Census Tract 1020.05, Montgomery County, TN	6	7	73.6	72.2	1.4
Census Tract 50, Knox County, Tennessee	7	10	73.3	71.2	2.1
Census Tract 2, Madison County, Tennessee	8	8	73.1	71.8	1.3
Census Tract 40, Knox County, Tennessee	9	6	73.1	72.2	0.8
Census Tract 114.43, Hamilton County, Tennessee	10	11	73.0	71.1	1.9

Pool 3					
Tract	Rank	Rank (w/o Var 4)	Composite	Composite (w/o Var 4)	Diff.
Census Tract 3.02, Putnam County, Tennessee	1	1	100.0	100.0	0.0
Census Tract 407, Tipton County, Tennessee	2	3	82.9	83.3	-0.3
Census Tract 9704, Cumberland County, Tennessee	3	2	82.9	83.5	-0.6
Census Tract 606.02, Dickson County, Tennessee	4	5	78.4	77.6	0.8
Census Tract 602.02, Loudon County, Tennessee	5	4	78.3	79.7	-1.4
Census Tract 806.06, Robertson County, Tennessee	6	6	77.2	74.8	2.4
Census Tract 807, Robertson County, Tennessee	7	8	76.8	73.0	3.9
Census Tract 9, Putnam County, Tennessee	8	10	74.1	72.0	2.1
Census Tract 605.01, Dickson County, Tennessee	9	13	73.4	69.6	3.9
Census Tract 2, Putnam County, Tennessee	10	11	72.9	71.1	1.8

Methodology

Variable 1: Projected county population growth 2021-2031 as a percent of the state's population growth

- This is the only variable that is calculated at the county level and then applied to the tract-level
- Data Source: Tennessee State Data Center's Boyd Center Population Projections (<https://tnsdc.utk.edu/estimates-and-projections/boyd-center-population-projections/>).
- Directionality: Positive (e.g. a higher value in this measure contributes to a higher score.)



Variable 2: Tract share of the state's income-qualified renter households with housing problems

- Census tract's income-qualified renter population, between 30% and 50% AMI with housing problems as a percent of the state's income-qualified renter population with one or more of 4 housing problems:
 1. Housing unit lacks complete kitchen facilities
 2. Housing unit lacks complete plumbing facilities
 3. Household is overcrowded
 4. Household is cost burdened (housing costs more than 30% of a household's income).
- Data Source: CHAS data from 2013-17
- Directionality: Positive (e.g. a higher value in this measure contributes to a higher score.)

Variable 3: Tract prior allocation per capita income qualified renter household

- The total dollar amount of tax credits allocated for new construction for each Census tract in the last five years **per** income-qualified household (between 30% and 50% AMI).
- The measure includes awards made during the most recent competitive round as well as non-competitive (4% percent) allocations from transactions which have closed by September 15th of the prior year.
- Data Source: THDA & CHAS
- Directionality: Negative (e.g. a higher value in this measure contributes to a lower score.)

Variable 4: Tract Economic Score Composite

- Data are collected for each component of the composite for every populated census tract in Tennessee.
- Within each pool, the mean (μ) and standard deviation (σ) are calculated for each dataset.
- For each variable, the values for each tract are standardized by converting to a z-score: $z=(x-\mu)/\sigma$. That is, the number of standard deviations from the mean.
- Data Source: ACS
- Directionality: Positive (e.g. a higher overall value in this measure contributes to a higher score.)

Index Component	Direction	Description	Data Source
Unemployment Rate	-	A low unemployment rate indicates a community where employment opportunities exist.	Most Recent 5-year estimate of the unemployment rate for the civilian labor force from the American Community Survey (Table DP03).
Percent of Families in Poverty	-	A low rate of poverty indicates that new affordable housing will not result in geographic concentrations of poverty. Creating affordable housing opportunities in low-poverty neighborhoods furthers fair housing.	Most Recent 5-year estimate of share of families with incomes below the poverty level from the American Community Survey (Table S1702).
Labor Force Engagement	+	A high workforce engagement rate indicates a community where households generate income, work is normative, and working-age adults have reason to believe they will gain worthwhile employment.	Derived from most recent 5-year estimate from the American Community Survey (Table S2301). The sum of working age population (ages 16+) engaged in the workforce is divided by the total working age population for each tract.
Median Household Income	+	A moderately high median income is indicative of a high level of community resources that can benefit all residents.	Most recent 5-year estimate of median household income from the American Community Survey (Table S1903).

Notes about Methodology

- Overall 27 tracts are missing a score. Most of these tracts are types of non-populated tracts. Therefore, they lack ACS information that would allow for the construction of the economic security composite.
- The score is on a 0-100 point scale which is constructed by calculating the standardized measure of each variable *within* the tract pool.

$$Z = \frac{x - \mu}{\sigma}$$

- Once standardized, the composite score is calculated as follows:
(0.25*Variable 1) + (0.3* Variable 2) - (0.3*Variable 3) + (0.15*Variable 4)